



P e n s i o n C o n s u l t i n g A l l i a n c e , I n c .

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To: Members of the Investment Committee
California Public Employees' Retirement System

From: Pension Consulting Alliance, Inc. (PCA)

Date: December 15, 2008

Subject: AIM Performance through September 30, 2008

PCA has received and reviewed Wilshire's Third Quarter 2008 Executive Summary of CalPERS' Investment Performance as it relates to the Alternative Investment Management (AIM) Program. The following items should be considered in your assessment of AIM's performance:

- In an illiquid asset class populated with ten-year partnerships, longer term results are more significant than those of a shorter duration.
- Modifications to the ranges around CalPERS' asset allocation targets are an agenda item at the December Investment Committee meeting. PCA has worked with Staff in preparing and is supportive of the item to be presented.
- In September 2008, PCA, Wilshire and Staff agreed that the more meaningful AIM performance comparison was the PERS Wilshire 2500 Index plus 300 bps. The Policy Index is more meaningful for personnel evaluations and will not appear in subsequent quarterly reports.
- During the past twelve months (especially the last ninety days), public markets have been abnormally volatile and credit availability has been severely curtailed. As a result, all forms of private equity buyout transactions have suffered. Mega buyouts, which are a large component of the AIM portfolio, have suffered the most. As mentioned previously, these conditions have and will continue to negatively impact AIM performance. Despite this, AIM's performance has exceeded the PERS Wilshire 2500 Index ex Tobacco plus 300 bps for the periods presented.